

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature	Printed Name		License Number	



**GENESEE COUNTY COMMUNITY
MENTAL HEALTH SERVICES**

Genesee County, Michigan

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

**For the Year Ended
September 30, 2006**

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICES

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-7
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	8
Statement of Activities	9
Fund Financial Statements:	
Balance Sheet - Governmental Funds	10
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets	11
Statement of Revenue, Expenditures, and Changes in Fund Balance - Governmental Funds	12
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	13
Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual - Mental Health Fund	14
Statement of Net Assets - Proprietary Funds	15
Statement of Revenue, Expenses, and Changes in Fund Net Assets - Proprietary Funds	16
Statement of Cash Flows - Proprietary Funds	17
Statement of Fiduciary Assets and Liabilities - Agency Funds	18
Notes to Financial Statements	19-33
Required Supplementary Information	
Schedule of Funding Progress - Employee Retirement System	34
Combining Fund Financial Statements and Schedules	
Combining Statement of Net Assets - Internal Service Funds	35
Combining Statement of Revenue, Expenses and Changes in Fund Net Assets - Internal Service Funds	36
Combining Statement of Cash Flows - Internal Service Funds	37
Combining Balance Sheet - Fiduciary Fund Types - Agency Funds	38

Continued

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICES

Table of Contents

	<u>Page</u>
Single Audit Section	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matter Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	39-40
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	41-42
Schedule of Expenditures of Federal Awards	43-44
Notes to Schedule of Expenditures of Federal Awards.....	45
Schedule of Findings and Questioned Costs	46-47

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

December 29, 2006

The Board of Directors
Genesee County Community Mental Health Services
Flint, Michigan

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of ***Genesee County Community Mental Health Services*** (the "Agency", a collection of funds of Genesee County, Michigan) as of and for the year ended September 30, 2006. These financial statements are the responsibility of the Genesee County Mental Health Services' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note I, the financial statements present only the funds of Genesee County Community Mental Health Services and do not purport to, and do not present fairly the financial position of Genesee County, Michigan, as of September 30, 2006, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Genesee County Community Mental Health Services as of September 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof, and the budgetary comparison of the major fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2006, on our consideration of Genesee County Community Mental Health Services' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-8 and the Schedule of Funding Progress on page 33 are not a required part of the financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Genesee County Community Mental Health Services' financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

Management's Discussion and Analysis

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICES

Management's Discussion and Analysis

Fiscal Year October 1, 2005 - September 30, 2006

The Genesee County Community Mental Health Services (GCCMH) (the "Agency") provides or directs integrated mental health, and physical health service programs for persons with severe and persistent mental illness (SMI), persons with developmental disabilities (DD) and persons needing treatment for substance abuse. The agency has been a provider of services for nearly forty years. On October 1, 1998, Agency also became the designated Medicaid managed care administrator for Genesee County residents who are diagnosed SMI and/or DD. This unique dual responsibility has many challenges and benefits as the agency seeks to meet the independent regulatory obligations while presenting a seamless operation to our consumers and stakeholder.

The information provided within this Management's Discussion and Analysis is supplemental to the financial statements. It is not intended to replace the financial statements, nor does it provide contrary financial data. The analysis section of this summary will identify major issues of importance for anyone reviewing these financial statements.

FINANCIAL OVERVIEW

The financial structure of the Agency is based on fund accounting. Each fund represents the specific parameters within which financial decisions must be made. Agency has numerous grants with State funding that includes Medicaid, General Fund, MI Child, Substance Abuse and Adult Benefit Waiver. Each of the major funding separations includes restrictions and mandates as to how funds may be utilized in providing medically necessary services for the eligible populations.

Agency is allowed to maintain several Internal Service Funds. The first of those funds represents the reserves required by our state contract to ensure the availability of sufficient funds to cover necessary or mandated services when expenditures exceed revenues for a given fiscal year. The second fund is used to accumulate assets by charging funds for earned but unpaid employee compensated absences. And finally, a postretiree health care fund is used to charge funds for actuarially determined health care obligation contributions. Within each fund, subsets of areas of responsibility are further delineated. This segregation of activities and objectives ensures and demonstrates compliance with financial requirements and regulatory restrictions.

The financial structure has also been designed to provide a financial presentation of the services provided by the Agency, including general outpatient services, state and community inpatient, licensed facilities, supported community living, substance abuse treatment and prevention, and special projects including both state and grant-supported activities.

Government-wide Financial Statements

The *Statement of Net Assets* presents the financial status of the Agency's assets and liabilities. It presents the long-term financial status of the Agency. The Agency has recorded capital assets subject to depreciation on the financial statements. Currently, the Agency has no debt.

The *Statement of Activities* presents the financial data that resulted in a change to the net assets. This report presents a long-term view of the revenue and expense transactions that occurred during the current fiscal year period. The total change to the net assets resulting from the 2006 fiscal year activities is a decrease of \$3,005,583. Of this total, \$4,221,565 relates to decreases from Mental Health Services and \$1,215,982 represents an increase from internal service activities. Major activities include adult services, children's services, developmentally disabled services, substance abuse, managed care and administrative services.

Revenues and expenses increased during the year primarily due to the Agency becoming the primary coordinating agency for the substance abuse program midway through the fiscal year. In addition, the Agency experienced both an increase in Medicaid and General Fund eligible participants and the average volume of services utilized.

Fund Financial Statements

The *governmental funds financial statements* are intended to provide an overview of the Agency's major areas of services. Funds are separated to maintain the integrity of the reporting and to meet all funding and regulatory restrictions on the allowable expenditure of each funding source.

Notes to the Financial Statements

The notes provide additional information that is essential to the full understanding of the financial data provided in all financial statements. These notes are integral to the statements and should be reviewed in conjunction with the information included in the statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets

Total assets for the Agency amounted to \$30,908,911. Total liabilities were \$12,333,933. Total net assets were \$18,574,978. Net assets in the prior year were \$21,580,561.

	Governmental Activities	
	2006	2005
Assets		
Current and other assets	\$ 30,002,387	\$ 34,547,430
Capital assets, net	906,524	515,493
Total assets	30,908,911	35,062,923
Liabilities		
Payables and accrued liabilities	12,333,933	11,633,348
Unearned revenues	-	1,849,014
Total liabilities	12,333,933	13,482,362
Net assets		
Invested in capital assets	906,524	515,493
Restricted	14,260,069	17,912,441
Unrestricted	3,408,385	3,152,627
Net assets	\$ 18,574,978	\$ 21,580,561

Statement of Activities

The *Statement of Activities* lists the major areas and sub-areas of services provided by the Agency.

Services provided at or on behalf of the Agency can be segregated into three main categories. First the largest expense category within the Agency budget is services provided in residential settings (Adult Foster Care homes). The second largest expense category is Acute Care services (treatment facilities such as hospitals, crisis residential and State facilities). And third, the remainder of services falls within our community and home based out patient programs.

By far, the greatest revenue source is the contract with the Michigan Department of Community Health, which includes Medicaid, Adult Benefit Waiver and General Funds, with the largest revenue source being Medicaid funding through special waiver provisions granted by the Federal Centers for Medicare and Medicaid Services. Other revenue sources include local funding from Genesee County, as well as an income from fees, collections, and grants.

The net assets of the Agency decreased by a combined total of \$3,005,583, resulting in total ending net assets of \$18,574,978.

	Governmental Activities	
	2006	2005
Revenue		
Program revenues:		
Charges for services	\$ 3,591,665	\$ 2,950,734
Operating grants and contributions	4,361,863	1,643,220
General revenues:		
Medicaid	75,563,892	70,424,276
State General Funds	21,847,312	20,692,895
Grants and contributions not restricted		
Substance abuse	2,291,164	2,064,808
County matching funds	3,029,943	2,480,163
Unrestricted investment earnings	820,797	342,562
Other unrestricted grants and contributio	110,731	312,019
Gain from sale of capital assets	-	18,817
Total revenues	111,617,367	100,929,494
Expenses		
Board Administration	17,009,890	10,785,141
Managed care	5,038,043	4,358,379
Adult services	38,993,726	29,588,572
Children's services	2,960,407	3,111,364
Developmentally disabled services	46,037,388	45,637,251
Substance abuse services	4,583,496	2,064,808
Total expenses	114,622,950	95,545,515
Change in net assets	(3,005,583)	5,383,979
Net assets, beginning of the year	21,580,561	16,196,582
Net assets, end of year	\$ 18,574,978	\$ 21,580,561

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

Balance Sheet - Governmental Funds

The *Balance Sheet for Governmental Funds* provides financial data for the major fund (Mental Health). The Internal Service Fund (ISF) data is not included here. Not including the ISF, the total assets, liabilities, and fund balance are as follows:

	Mental Health Fund
Total assets	\$ 14,377,350
Total liabilities	10,968,964
Fund Balance	<u>\$ 3,408,386</u>

Statement of Revenue, Expenditures, and Changes in Fund Balance-Governmental Funds

Again, the Governmental statements provide financial data relating to the Mental Health and do not include the Internal Service Funds.

Mental Health expenditures exceeded revenues (after deferring the carry forward amounts) by \$4,612,597, before other financing sources of \$4,868,354. The decrease is primarily and historically due to the results of operations.

The total amount of the unreserved fund balance is 2.57% of the fiscal year 2006 total actual expenditures for Mental Health and Substance Abuse services. This amount, while not at the level preferred by similar organizations in the private sector (7-10%), does provide some financial protection. The majority of revenue is derived from State contracts and is highly dependent on the state of the State's budget.

Budgetary Highlight

The budget for any particular fiscal year is developed several months prior to notification of funding levels. The Agency's Board reviews and approves a budget in September for an October 1 start date. Development of the annual budget begins in June, four months prior to its implementation. The funding levels from the State are often not received until after the start of a fiscal year. Especially during times of economic stress, these amounts are subject to change multiple times during the fiscal year.

The differences between the original and final budget illustrate this uncertainty of funding, especially given the time frame for implementing the budget for the start of the fiscal year. Ultimately, as indicated above, there were carry forward funds that may be applied to the following year's decisions about service levels. The amounts under budget during this fiscal year reflect the carry forward amounts discussed earlier.

Actual expenditures exceeded budgeted expenditures for adult and developmentally disabled services in the amount of \$4,815,034 and \$4,212,002 respectively. These variances were primarily due to the increased volume of consumers and the increased level of care provided.

Capital Assets

The Agency's investment in capital assets for its governmental activities as of September 30, 2006 amounted to \$906,524 (net of accumulated depreciation). This investment in capital assets includes building improvements, vehicles and equipment. The total increase in the Agency's investment in capital assets for the current fiscal year was \$391,031 or 76%.

Factors Impacting the Future

The greatest impact to the Agency's future standing is the contract with the Michigan Department of Community Health. The funding levels from the State are in turn severely impacted by the State of Michigan's economy, potential Executive Order reductions issued by the Governor, and the approval of waiver provisions by the Centers of Medicare and Medicaid Services.

As of April 1, 2006, the Agency assumed the responsibility of managing the Substance Abuse Service Network for Genesee County. This change will result in additional revenue of approximately \$7,000,000 of state and local funds.

Medicaid funding is dependent on the number of persons that meet Medicaid criteria. That number has risen in the past year, resulting in increased costs to the Medicaid system.

The management and risk associated with managing the general fund will significantly increase in fiscal year 2007. The state has revised the contract language associated with maintaining a risk reserve general fund. Except under severe circumstances, our ability to maintain this fund has been eliminated. This will result in a change in budgeting practice and availability of services to ensure that expenditures for general fund dollars do not exceed revenue.

One further restriction challenging our ability to manage medically necessary services is the inability to interchange funds among the consumer groups. Thus, Medicaid funding may not be utilized for services to non-Medicaid consumers.

Requests for Information

This financial report is designed to provide a general overview of the finances of the Genesee County Community Mental Health Services (a collection of funds of Genesee County). Questions concerning this information may be directed to Jeffrey Delay, Vice President of Business Operations, Genesee County Community Mental Health, 420 West Fifth Street, Flint, Michigan 48503.

Financial Statements

**GENESEE COUNTY COMMUNITY
MENTAL HEALTH SERVICES**

Statement of Net Assets

September 30, 2006

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 4,647,614
Investments	22,936,212
Accounts receivable	1,777,137
Prepays and other assets	641,424
Depreciable capital assets, net	906,524
Total assets	30,908,911
Liabilities	
Accounts payable and accrued liabilities	12,333,933
Net assets	
Invested in capital assets	906,524
Restricted for:	
Contract losses	662,070
Employee benefits	13,597,999
Unrestricted	3,408,385
Total net assets	\$ 18,574,978

The accompanying notes are an integral part of these financial statements.

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICES

Statement of Activities

For the Year Ended September 30, 2006

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental activities				
Board administration	\$ 17,009,890	\$ -	\$ -	\$ (17,009,890)
Managed care	5,038,043	231,812	-	(4,806,231)
Adult services	38,993,726	3,118,443	1,364,594	(34,510,689)
Children's services	2,960,407	67,973	2,997,269	104,835
Developmentally disabled service	46,037,388	173,437	-	(45,863,951)
Substance abuse services	4,583,496	-	-	(4,583,496)
Total governmental activities	<u>\$ 114,622,950</u>	<u>\$ 3,591,665</u>	<u>\$ 4,361,863</u>	<u>(106,669,422)</u>
General revenues:				
MDCH Contract:				
Medicaid				75,563,892
General Fund				21,847,312
Substance Abuse				2,291,164
County matching funds				3,029,943
Unrestricted investment earnings				820,797
Gain from sale of capital assets				
Other unrestricted grants and contributions				<u>110,731</u>
Transfer to other county funds				
Total general revenues				<u>103,663,839</u>
Change in net assets				(3,005,583)
Net assets, beginning of year				<u>21,580,561</u>
Net assets, end of year				<u>\$ 18,574,978</u>

The accompanying notes are an integral part of these financial statements.

**GENESEE COUNTY COMMUNITY
MENTAL HEALTH SERVICES**

**Balance Sheet
Governmental Fund**

September 30, 2006

	Mental Health
Assets	
Cash and cash equivalents	\$ 3,774,122
Investments	
Receivables:	
Due from the Michigan Department of Community Health	610,799
Due from other agencies and governments	857,116
Other receivables	119,488
Due from risk reserve fund	8,557,936
Prepays	457,889
Total assets	<u>\$ 14,377,350</u>
Liabilities	
Accounts payable	\$ 9,581,118
Accrued liabilities	1,313,529
Due to the Michigan Department of Community Health	74,317
Total liabilities	<u>10,968,964</u>
Fund balance	
Reserved for prepaids	457,889
Unreserved, undesignated	2,950,497
Total fund balance	<u>3,408,386</u>
Total liabilities and fund balance	<u>\$ 14,377,350</u>

The accompanying notes are an integral part of these financial statements.

**GENESEE COUNTY COMMUNITY
MENTAL HEALTH SERVICES**

**Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets**

September 30, 2006

Fund balances - total governmental funds:	\$ 3,408,386
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets	2,475,305
Deduct: accumulated depreciation	(1,568,781)

Internal service funds are used by management to set aside certain resources as a risk reserve against potential contract losses in future periods and for employee benefits. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

Add: net assets of governmental activities accounted for in internal service fund	<u>14,260,068</u>
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Net assets of governmental activities	<u><u>\$18,574,978</u></u>
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The accompanying notes are an integral part of these financial statements.

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICES

Statement of Revenue, Expenditures, and Changes in Fund Balance Governmental Fund

For the Year Ended September 30, 2006

	Mental Health
Revenue	
Federal sources:	
Medicaid	\$ 77,851,504
Federal grants	3,558,490
State sources:	
State general fund indigent	21,847,312
State grants	211,957
Local sources:	
County appropriations	3,029,943
Charges for services	2,509,727
PA 423 funding	1,081,938
Local grants and contributions	586,470
Interest revenue	
Other revenue	115,698
Total revenue	110,793,039
Expenditures	
Mental health services:	
Board administration	16,999,030
Managed care	5,153,924
Adult services	38,440,341
Children's services	3,540,056
Developmentally disabled	46,104,654
Substance abuse services	5,167,631
Total expenditures	115,405,636
Excess of revenues (under) expenditures before other financing sources	(4,612,597)
Other financing sources	
Transfers in	4,868,354
Transfers out	
Proceeds from sale of capital assets	
Total other financing sources	4,868,354
Net change in fund balance	255,757
Fund balance, beginning of year	3,152,629
Fund balance, end of year	\$ 3,408,386

The accompanying notes are an integral part of these financial statements.

**GENESEE COUNTY COMMUNITY
MENTAL HEALTH SERVICES**

**Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of the Governmental Fund
to the Statement of Activities**

For the Year Ended September 30, 2006

Net change in fund balances - total governmental fund:	\$ 255,757
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	489,601
Deduct: depreciation expense	(98,570)

Internal service funds are used by management to set aside certain resources as a risk reserve against potential contract losses in future periods, employee health care and accrued compensated absences. The net revenue (expense) of those funds are reported with governmental activities.

Add: net operating income from internal service funds	395,185
Add: other nonoperating revenue from internal service funds	820,798
Less: transfers from internal service funds	<u>(4,868,354)</u>

Change in net assets of governmental activities	<u><u>\$ (3,005,583)</u></u>
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The accompanying notes are an integral part of these financial statements.

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICES

Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual Mental Health Fund

For the Year Ended September 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenue				
Federal sources:				
Medicaid	\$74,713,124	\$76,562,138	\$77,851,504	\$ 1,289,366
Federal grants	1,346,422	3,776,743	3,558,490	(218,253)
State sources:				
State general fund indigent	19,661,294	21,647,571	21,847,312	199,741
State grants	275,694	275,694	211,957	(63,737)
Local sources:				
County appropriations	2,679,590	2,679,590	3,029,943	350,353
Charges for services	3,279,824	3,449,677	2,509,727	(939,950)
PA 423 funding	664,000	664,000	1,081,938	417,938
Local grants and contributions	8,000	8,000	586,470	578,470
Other revenue	59,500	59,500	115,698	56,198
Total revenue	<u>102,687,448</u>	<u>109,122,913</u>	<u>110,793,039</u>	<u>1,670,126</u>
Expenditures				
Mental health services:				
Board administration	18,086,514	18,553,314	16,999,030	1,554,284
Managed care	5,662,135	5,662,135	5,153,924	508,211
Adult services	30,392,881	33,625,307	38,440,341	(4,815,034)
Children's services	3,381,386	3,583,778	3,540,056	43,722
Developmentally disabled	43,538,452	41,892,652	46,104,654	(4,212,002)
Substance abuse services	2,003,308	6,582,955	5,167,631	1,415,324
Total expenditures	<u>103,064,676</u>	<u>109,900,141</u>	<u>115,405,636</u>	<u>(5,505,496)</u>
Excess of revenues under expenditures before other financing sources	(377,228)	(777,228)	(4,612,597)	(3,835,370)
Other financing sources				
Transfers in	-	-	4,868,354	4,868,354
Net changes in fund balances	(377,228)	(777,228)	255,757	1,032,985
Fund balance, beginning of year	<u>3,152,629</u>	<u>3,152,629</u>	<u>3,152,629</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 2,775,401</u></u>	<u><u>\$ 2,375,402</u></u>	<u><u>\$ 3,408,386</u></u>	<u><u>\$ 1,032,985</u></u>

The accompanying notes are an integral part of these financial statements.

**GENESEE COUNTY COMMUNITY
MENTAL HEALTH SERVICES**

**Statement of Net Assets
Proprietary Funds**

September 30, 2006

	Internal Service Funds
Current assets	
Cash and cash equivalents	\$ 873,492
Investments	22,936,212
Interest receivable	189,734
Prepays	<u>183,535</u>
Total current assets	<u>24,182,973</u>
Current liabilities	
Accounts payable	12,582
Accrued liabilities	1,352,386
Due to other county funds	
Due to mental health fund	<u>8,557,936</u>
Total current liabilities	<u>9,922,904</u>
Net assets	
Restricted for:	
Contract losses	662,070
Employee benefits	<u>13,597,999</u>
Total Assets	<u><u>\$ 14,260,069</u></u>

The accompanying notes are an integral part of these financial statements.

**GENESEE COUNTY COMMUNITY
MENTAL HEALTH SERVICES**

**Statement of Revenue, Expenses,
and Changes in Fund Net Assets
Proprietary Funds**

For the Year Ended September 30, 2006

	Internal Service Funds
Operating revenue	
Charges for services	\$ 2,731,344
Expenses	
Employee benefits	2,336,159
Net operating income	395,185
Nonoperating revenue	
Interest revenue	820,797
Income before transfers	1,215,982
Transfers out	(4,868,354)
Change in net assets	(3,652,372)
Net assets, beginning of year	17,912,441
Net assets, end of year	\$14,260,069

The accompanying notes are an integral part of these financial statements.

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICES

Statement of Cash Flows Proprietary Funds

For the Year Ended September 30, 2006

	Internal Service Funds
Cash flows from operating activities	
Cash received from interfund services	\$ 6,420,926
Payments to suppliers	(2,238,757)
Payments to employees	-
Net cash provided by operating activities	<u>4,182,169</u>
Cash flows from non-capital financing activities	
Transfer to other funds	<u>(501,087)</u>
Cash flows from investing activities	
Proceeds from sale of investments	
Sale of investments	217,285
Purchase of investments	(10,863,971)
Interest received	866,119
Net cash (used by) investing activities	<u>(9,780,567)</u>
Decrease in cash and cash equivalents	(6,099,485)
Cash and cash equivalents, beginning of year	<u>6,972,977</u>
Cash and cash equivalents, end of year	<u>\$ 873,492</u>
Reconciliation of operating income to net cash used in operating activities	
Operating income	\$ 395,185
Adjustments to reconcile operating income to net cash provided by operating activities	
Changes in assets and liabilities	
Prepaid	(11,373)
Accounts payable	808
Accrued liabilities	107,967
Due to mental health fund	<u>3,689,582</u>
Net cash provided by operating activities	<u>\$ 4,182,169</u>
Non-Cash Transactions:	
There were no significant non-cash investing or financing activities during the year.	

The accompanying notes are an integral part of these financial statements.

**GENESEE COUNTY COMMUNITY
MENTAL HEALTH SERVICES**

Statement of Fiduciary Assets and Liabilities - Agency Funds

September 30, 2006

Assets

Cash and cash equivalents	<u>\$ 444,592</u>
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Liabilities

Accrued liabilities	<u>\$ 444,592</u>
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The accompanying notes are an integral part of these financial statements.

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICES

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Genesee County Community Mental Health Services (GCCMHS) (the “Agency”), a collection of funds of Genesee County, Michigan, have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standards-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Agency’s accounting policies are described below.

A. Reporting Entity

The accompanying financial statements are exclusive presentations of the financial condition and results of operations of the Agency. The Agency is considered a collection of funds of Genesee County, Michigan’s governmental operation and is an integral part of that reporting entity. The Agency is not a component unit of Genesee County, Michigan or any other reporting entity, defined by GASB Statement No. 14, *The Financial Reporting Entity*.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Agency. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICES

NOTES TO FINANCIAL STATEMENTS

C. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. However, the Agency Funds do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Agency considers revenues to be available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Intergovernmental revenues are accrued when earned.

Service charges to first and third party payor and grant funds associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period.

The Agency reports the following major governmental fund:

The Mental Health special revenue fund is the general operating fund of the Agency. It is used to account for all financial resources except those required to be accounted for in another fund.

Additionally, the Agency reports the following fund types:

The internal service funds are used to account for and finance potential uninsured risks of loss related to various funding received through the Michigan Department of Community Health (MDCH), as well as for accounting for and financing post-employment health benefits and other selected retirement costs and employee benefits.

The agency fund is used to account for assets held on behalf of the Agency's consumers in which the Agency acts only in a fiduciary capacity.

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICES

NOTES TO FINANCIAL STATEMENTS

Information has been provided in the notes to these financial statements and in a required supplementary information section to the financial statements in regards to the Agency's funded share of Genesee County's defined benefit pension plan. However, due to the pooled nature of the plan for all County pension trust transactions, a separate pension trust fund for the Agency is undeterminable and accordingly is not provided.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the government's internal service funds are charges to other funds for services provided. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Assets, Liabilities and Equity

1. Deposits and Investments

The Agency's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. All investments are recorded at fair value.

2. Statutory Authority

State statutes authorize the Agency to invest in:

- a. Bond, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICES

NOTES TO FINANCIAL STATEMENTS

and that matures not more than 270 days after the date of purchase.

- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

The agency's investment policy allows for all of these types of investments.

3. *Accounts Receivable*

Accounts receivable are shown net of an allowance for uncollectibles. Consumer accounts receivable and revenue are recorded when services are performed. A substantial portion of the Agency's receivables from services to consumers is received under contractual arrangements with Medicaid, Medicare and Michigan Blue Cross/Blue Shield programs, whereby the Agency is paid based on allowable costs incurred. The preliminary settlement of amounts due to the Agency is subject to redetermination upon audit by the applicable agency. An estimated provision is made for possible adjustments that may result from such reviews and any differences between the amounts accrued and amounts settled are recorded in operations in the period of settlement.

4. *Interfund Receivables/Payables*

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds".

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICES

NOTES TO FINANCIAL STATEMENTS

5. *Prepayments*

Payments made to vendors for services that will benefit periods beyond September 30, 2006, are recorded as “prepaids” in the accompanying statement of net assets.

6. *Capital Assets*

Capital assets, which include property, plant and equipment, are reported in the governmental activities columns in the government-wide financial statements. Capital assets are defined by the Agency as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the Agency are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Vehicles and equipment	5-30
Building Improvements	15

7. *Contract with Michigan Department of Community Health*

The Agency has several account balances that relate to the Agency’s contract with the Michigan Department of Community Health (MDCH). The amount reported as “Due from Michigan Department of Community Health” largely represents a receivable from the various grantor agencies for services provided under the contract for the year ended September 30, 2006. “Due to Michigan Department of Community Health” reflects amounts due to the State for clients of the Agency placed in state institutions, amounts owed back to the State as the result of the year end cost settlement, and amounts owed back to the State for the State general fund risk reserve.

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICES

NOTES TO FINANCIAL STATEMENTS

8. *Compensated Absences*

The Agency provides four types of compensated absences – vacation, sick, personal and compensatory time. Vested or accumulated vacation leave and other compensated absences, for retirees and terminated employees, that are expected to be liquidated with expendable available financial resources are reported as an expenditure and a fund liability of the governmental fund that will pay it. Agency employees are granted vacation, sick leave and other compensated absences in varying amounts based on length of service. Pay for compensated absences is accrued and fully vested when earned. Any amounts vested and not yet paid to employees are transferred to the Internal Service Fund where they are held until paid.

9. *Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. **Budgetary Information**

An annual budget is adopted in accordance with Michigan Law for the Agency's Special Revenue Fund. The budget is adopted on a basis consistent with GAAP and with the requirements of the Michigan Department of Community Health. Budget amounts are presented as amended by the Board of Directors. Amounts over budget at the legal level of control are presented on the Statement of Revenue, Expenditures and Changes in Fund Balance – Budget and Actual for the major special revenue fund.

B. **Excess of expenditures over appropriations**

The Agency's budget is adopted on an activity basis. During the year ended September 30, 2006, the Agency incurred expenditures in excess of the amounts appropriated as follows:

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICES

NOTES TO FINANCIAL STATEMENTS

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Mental Health Fund:			
Adult Services	\$ 33,625,307	\$ 38,440,341	\$ 4,815,034
Developmentally disabled	41,892,652	46,104,654	4,212,002

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Summary of Deposit and Investment Balances. Following is a reconciliation of deposit and investment balances as of September 30, 2006:

Statement of Net Assets	
Cash and cash equivalents	\$ 4,647,614
Investments	22,936,212
Statement of Fiduciary Net Assets	
Cash and cash equivalent	<u>444,592</u>
Total	<u>\$ 28,028,418</u>
Deposits and Investments	
Bank deposits (checking and savings accounts)	\$ 5,088,656
Investments in U.S. governmental securities or its agencies	22,936,212
Cash on hand	<u>3,550</u>
Total	<u>\$ 28,028,418</u>

The Agency chooses to disclose its investments by specifically identifying each. As of year-end, the Agency had the following investments:

<u>Investment Type</u>	<u>Less than 1 year</u>	<u>1-5 Years</u>	<u>Total</u>	<u>Rating</u>
Commercial Paper	\$ 3,000,365	\$ -	\$ 3,000,365	Aa1
U.S. Agencies	<u>18,931,807</u>	<u>1,004,040</u>	<u>19,935,847</u>	AAA
Total	<u>\$ 21,932,172</u>	<u>\$1,004,040</u>	<u>\$ 22,936,212</u>	

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICES

NOTES TO FINANCIAL STATEMENTS

Investment and Deposit Risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. The Agency's investment policy does not have specific limits in excess of State law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments to specific government securities, certificates of deposit and bank accounts with qualified institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the summary of significant accounting policies. The Agency's investment policy does not have specific limits in excess of state law on investment credit risk. The investments in U.S. governmental securities or its agencies as noted above have the highest rating awarded by the national rating agencies.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposits may not be returned. State law does not require and the Agency does not have a policy for deposit custodial credit risk. The Agency has chosen to participate in Genesee County's investment pool, which is managed by the County Treasurer. These funds are deposited in the Treasurer's pooled accounts, and are deposited by and in the name of the County Treasurer. Other County funds are also deposited in those accounts and, as such, because of the complexities of FDIC regulation No. 330.8, it is not possible to readily determine the amount of insurance that would be allocated to the Agency's deposits.

Custodial Credit Risk - Investments. For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the Agency will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Agency does not have a policy for investment custodial credit risk. All of the above \$22,936,212 in investments held by the Agency is exposed to custodial credit risk because the related securities are uninsured, unregistered and held by the government's brokerage firm which is also the counterparty for these particular securities.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the summary of significant accounting policies. The Agency's investment policy does not have specific limits in excess of State law on concentration of credit risk. More than 5 percent of the

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICES

NOTES TO FINANCIAL STATEMENTS

Agency's investments are in U.S. governmental securities or its agencies. All investments held at year-end are reported above.

B. Other Receivables

Other receivables consist primarily of billings to residential care providers for prior year cost settlements in addition to Patient Fees, Medicaid Title 19, Medicare and other 3rd party insurers totaling \$160,874 less an allowance for doubtful accounts of \$41,386 for a net amount of \$119,488.

C. Capital Assets

Capital assets activity for the year ended September 30, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending Balance</u>
Non-depreciable capital assets					
Construction in progress	\$ 119,255	\$ -	\$ -	\$ (119,255)	\$ -
Depreciable capital assets					
Building improvements	-	364,349	-	119,255	483,604
Vehicles and equipment	1,261,855	125,252	-	604,594	1,991,701
Total depreciable capital assets	<u>1,261,855</u>	<u>489,601</u>	<u>-</u>	<u>723,849</u>	<u>2,475,305</u>
Total capital assets	<u>1,381,110</u>	<u>489,601</u>	<u>-</u>	<u>604,594</u>	<u>2,475,305</u>
Less accumulated depreciation					
Building improvements	-	(11,759)	-	-	(11,759)
Vehicles and equipment	(865,617)	(86,811)	-	(604,594)	(1,557,022)
	<u>(865,617)</u>	<u>(98,570)</u>	<u>-</u>	<u>(604,594)</u>	<u>(1,568,781)</u>
Total net capital assets	<u>\$ 515,493</u>	<u>\$ 391,031</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 906,524</u>

Genesee County, Michigan transferred \$604,594 worth of vehicles to the Agency as of September 30, 2006. Since the Agency is a fund of the County, the vehicles were transferred at cost as fully depreciated assets.

**GENESEE COUNTY COMMUNITY MENTAL
HEALTH SERVICES**

NOTES TO FINANCIAL STATEMENTS

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities	
Board administration	\$ 77,941
Adult services	4,454
Children's services	7,196
Developmentally disabled services	<u>8,979</u>
 Total depreciation expense - governmental activities	 <u>\$ 98,570</u>

D. Due to State

For the year ended September 30, 2006, the operations of the Agency were conducted under the terms and conditions of its contract with the Michigan Department of Community Health (MDCH). Of the \$74,317 due to the State, \$13,615 represents the balance owed to the MDCH for excess Medicaid and State funded managed care proceeds that were not expended in the current year.

E. Operating Leases

The Agency entered into a one-year agreement to lease the main office building in October 2004. Currently the Agency continues to use the building with the original lease terms and conditions on a month by month basis whereby rent is charged at \$22,000 per month. The Agency has also entered into agreements of various leases for group homes, vehicles and equipment. Many of these leases are charged to the provider and payable to either the State of Michigan or to Genesee County and therefore are not included in the schedule below due to the pass-through nature of the transactions. Net rental expenses (net of pass-through transactions) amounted to \$541,704 for the year ended September 30, 2006.

Future minimum rental commitments for leases that have remaining terms in excess of one year at September 30, 2006, are as follows:

Fiscal Year Ending <u>September 30</u>	<u>Amount</u>
2007	\$ 23,252
2008	<u>23,252</u>
Total	<u>\$ 46,504</u>

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICES

NOTES TO FINANCIAL STATEMENTS

IV. OTHER INFORMATION

A. Risk Management

The Agency is exposed to various risks of loss related to property loss, torts, errors and omissions, malpractice and employee injuries. The Agency has purchased commercial insurance for these claims. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. The Agency also participates in the Genesee County self-insurance program for automobile insurance. The Agency does not retain any risk through participation in this program. The Agency is self-funded for dental insurance subject to stop loss insurance limits so that the maximum amount of loss is fixed at a predetermined amount. This amount is provided in the Agency's annual budget.

The self-insurance program for dental insurance is accounted for in the Mental Health Fund. An independent administrator (Delta Dental) is hired to process the daily claims and to perform management duties. Benefits under the program are capped at \$1,000 for routine dental and \$1,400 for orthodontic procedures per covered person annually. There were no reductions of insurance coverage from the prior year. Settled claims have not exceeded insurance coverage in any of the past three years.

<u>Fiscal Year</u>	<u>Beginning of Period Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claims Paid</u>	<u>End of Periods Liability</u>
2004	\$ -	\$ 439,356	\$ 439,359	\$ -
2005	-	437,022	437,022	-
2006	-	463,369	463,369	-

B. Defined Benefit Pension Plan

Plan Description

The Agency participates in a contributory multi-employer, defined benefit pension plan (the Genesee County Employees Retirement System or GCERS). GCERS was organized pursuant to Section 12A of Act 156, Public Acts of 1851 (MSA 5.333(1); MCLA 46.12a) as amended. The GCERS is regulated under the Genesee County Employees' Retirement System Ordinance, the sections of which have been approved by the state pension commission and is administered by the Genesee County Retirement Commission. The GCERS was established in 1946, beginning with the General Unit and the County Road Commission. Water and Waste joined

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICES

NOTES TO FINANCIAL STATEMENTS

the system in 1956, Community Mental Health in 1966, City of Mt. Morris in 1969, and the Genesee District Library in 1980. GCERS issues a stand-alone financial report; a copy of this report may be obtained by contacting the retirement office.

Currently, all Agency employees participate in the plan including non-union, AFSCME union, Teamsters union, as well as the director and program chief employees. Membership in the plan at December 31, 2005, the date of the latest actuarial valuation, is comprised of 383 active members, 40 inactive members, and 181 retirees and beneficiaries. Participants may elect normal retirement after 23 years of service regardless of age or age 60 with 8 years of service. Non-union, program chiefs, and director participants hired before February 9, 1989 and Teamsters and AFSCME participants, are entitled to a retirement benefit equal to the final average compensation multiplied by the sum of 2.4% for the first 25 years of service plus 1.0% of years of service in excess of 25 years up to a maximum of 65% of employer financed final average compensation. Non-union participants hired after February 9, 1989 are entitled to a retirement benefit equal to the final average compensation multiplied by the sum of 2.4% for the first 25 years of service plus 1.0% for years of service in excess of 25 years up to maximum of 60% of employer financed final average compensation. Participants hired before February 9, 1989 are vested after 8 years of service and those hired after February 9, 1989 are vested after 15 years of service.

Funding Policy

The Agency is required to contribute at an actuarially determined rate; the current rate of annual covered payroll is 13.61% for all employees. Employees are required to contribute 5% of base pay. Contributions are accumulated in individual accounts for each member remaining in service. If a member leaves service, they may withdraw their accumulated contribution along with the interest earned on their balance.

Annual Pension Cost

For the year ended September 30, 2006, the Agency's annual pension cost of \$2,187,694 for GCERS was equal to the Agency's required and actual contributions. The required contribution was determined as part of the Agency's December 31, 2005 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 5% to 9.03% per year, depending on age, attributable to seniority/merit. The actuarial value of GCERS assets was determined on the basis of a valuation

**GENESEE COUNTY COMMUNITY MENTAL
HEALTH SERVICES**

NOTES TO FINANCIAL STATEMENTS

method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Agency's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2005, the date of the latest actuarial valuation, was 10 years.

Trend Information			
Fiscal Year <u>Ending</u>	Annual Pension Cost (APC) <u>Cost (APC)</u>	Percentage of APC <u>Contributed</u>	Net Pension <u>Obligation</u>
9/30/04	\$ 1,554,236	100%	\$ 0
9/30/05	1,858,943	100%	0
9/30/06	2,187,694	100%	0

C. Defined Contribution Pension Plan

In 2000, the Agency authorized that new retirees may elect to transfer the actuarial present value of the participants accrued benefit under the defined benefit plan to an account within the Genesee County Defined Contribution Pension Plan. Since this is only an option to retirees, no employer or employee contribution can be made.

D. Post-employment Health Benefits

The Agency provides post-employment health, dental and life insurance benefits to employees that participate in GCERS. Currently 214 retirees are eligible. Expenditures for post-employment benefits are recognized as insurance premiums when they become due. For the current fiscal year these amounted to \$2,068,566 for health, \$156,406 for dental and \$3,220 for life insurance. In addition, the Agency transferred \$2,623,377 into the Retiree Health Care Internal Service Fund.

E. Risk Reserve Fund Net Assets

Net assets in the Risk Reserve Internal Service Fund are restricted for future shortfalls between revenue and expenses.

Following is a schedule of changes in net assets of the Risk Reserve Internal Service Fund:

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICES

NOTES TO FINANCIAL STATEMENTS

	<u>Medicaid</u>	<u>State General</u>	<u>Local</u>	<u>Total</u>
Beginning balance	\$ 3,939,939	\$ 1,114,472	\$ 291,217	\$ 5,345,628
Additions	144,405	30,605	9,786	184,796
Deletions	<u>(3,453,414)</u>	<u>(1,145,077)</u>	<u>(269,863)</u>	<u>(4,868,354)</u>
Ending balance	<u>\$ 630,930</u>	<u>\$ -</u>	<u>\$ 31,140</u>	<u>\$ 662,070</u>

F. MDCH Revenue

The Agency provides mental health services on behalf of the Michigan Department of Community Health (MDCH) in accordance with a managed specialty supports and services contract (the "Contract"). Under the Contract, the Agency receives monthly capitation payments based on the number of the MDCH's participants, regardless of services actually performed by the Agency. In addition, the MDCH makes fee-for-service payments to the Agency for certain covered services.

G. Unreserved, Undesignated Fund Balance

Unreserved, undesignated fund balance for the Mental Health special revenue fund is comprised of the following funding source elements:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Adult benefit waiver funds	\$ 1,825,460	\$ -	\$ (689,453)	\$ 1,136,007
Public Act 423 funds	728,938	1,081,938	(321,521)	1,489,355
Other funds	<u>86,857</u>	<u>325,135</u>	<u>(86,857)</u>	<u>325,135</u>
Total	<u>\$ 2,641,255</u>	<u>\$ 1,407,073</u>	<u>\$ (1,097,831)</u>	<u>\$ 2,950,497</u>

H. Interfund receivables, payables, and transfers

The composition of interfund balances as of September 30, 2006 is as follows:

Due to / from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Mental health	Retiree health care	\$ 3,689,582
	Risk reserve fund	<u>4,868,354</u>
		<u>\$ 8,557,936</u>

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICES

NOTES TO FINANCIAL STATEMENTS

The outstanding balances between funds result mainly from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recoded in the accounting system, and payments between funds are made.

Interfund Transfers:

<u>Transfer Out</u>	<u>Transfer In</u> <u>Mental Health Fund</u>
Risk reserve fund	\$ 4,868,354

Transfers are used to move unrestricted Risk Reserve Funds to finance eligible expenditures in the Mental Health Fund.

* * * * *

Required Supplementary Information

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICES

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/01	\$ 66,059,000	\$ 64,666,000	\$ (1,393,000)	102.2%	\$18,718,641	(7.4%)
12/31/02	64,240,420	67,608,297	(3,367,877)	95.0%	19,575,458	(17.2%)
12/31/03	62,858,695	68,477,572	(5,618,877)	91.8%	18,337,810	(30.6%)
12/31/04	62,746,150	73,406,354	(10,660,204)	85.5%	17,976,431	(59.3%)
12/31/05	68,399,573	75,541,319	(7,141,746)	90.5%	17,670,597	(40.4%)

**Combining and Individual Fund
Financial Statements and Schedules**

**GENESEE COUNTY COMMUNITY
MENTAL HEALTH SERVICES**

**Combining Statement of Net Assets
Internal Service Funds**

September 30, 2006

	<u>Employee Benefits</u>	<u>Retiree Health Care</u>	<u>Risk Reserve</u>	<u>Total</u>
Current assets				
Cash and cash equivalents	\$ 132,825	\$ 709,326	\$ 31,341	\$ 873,492
Investments	1,299,860	16,137,269	5,499,083	22,936,212
Interest receivable	-	189,734	-	189,734
Prepays	-	183,535	-	183,535
Total assets	<u>1,432,685</u>	<u>17,219,864</u>	<u>5,530,424</u>	<u>24,182,973</u>
Current liabilities				
Accounts payable	-	12,582	-	12,582
Accrued liabilities	1,352,386	-	-	1,352,386
Due to mental health fund	-	3,689,582	4,868,354	8,557,936
Total liabilities	<u>1,352,386</u>	<u>3,702,164</u>	<u>4,868,354</u>	<u>9,922,904</u>
Net assets				
Unrestricted	<u>\$ 80,299</u>	<u>\$13,517,700</u>	<u>\$ 662,070</u>	<u>\$14,260,069</u>

**GENESEE COUNTY COMMUNITY
MENTAL HEALTH SERVICES**

**Combining Statement of Revenue, Expenses,
and Changes in Fund Net Assets
Internal Service Funds**

For the Year Ended September 30, 2006

	Employee Benefits	Retiree Health Care	Risk Reserve	Total
Operating revenue				
Charges for services	\$ 107,967	\$ 2,623,377	\$ -	\$ 2,731,344
Expenses				
Employee benefits	107,967	2,228,192	-	2,336,159
Net operating income	-	395,185	-	395,185
Non-operating revenue				
Interest revenue	41,202	594,799	184,796	820,797
Income before transfers	41,202	989,984	184,796	1,215,982
Transfers out	-	-	(4,868,354)	(4,868,354)
Change in net assets	41,202	989,984	(4,683,558)	(3,652,372)
Net assets, beginning of year	39,097	12,527,716	5,345,628	17,912,441
Net assets, end of year	\$ 80,299	\$13,517,700	\$ 662,070	\$14,260,069

**GENESEE COUNTY COMMUNITY
MENTAL HEALTH SERVICES**

**Combining Statement of Cash Flows
Internal Service Funds**

	<u>Employee Benefits</u>	<u>Retiree Health Care</u>	<u>Risk Reserve</u>	<u>Total</u>
Cash flows from operating activities				
Cash received from interfund service	\$107,967	\$ 6,312,959	\$ -	\$ 6,420,926
Payments to suppliers	<u>-</u>	<u>(2,238,757)</u>	<u>-</u>	<u>(2,238,757)</u>
Net cash provided by operating activities	<u>107,967</u>	<u>4,074,202</u>	<u>-</u>	<u>4,182,169</u>
Cash flows from non-capital financing activities				
Transfer to other funds	<u>-</u>	<u>-</u>	<u>(501,087)</u>	<u>(501,087)</u>
Cash flows from investing activities				
Sale of investments	-	-	217,285	217,285
Purchase of investments	(100,070)	(10,763,901)	-	(10,863,971)
Interest received	<u>57,826</u>	<u>493,150</u>	<u>315,143</u>	<u>866,119</u>
Net cash provided by (used in) investing activities	<u>(42,244)</u>	<u>(10,270,751)</u>	<u>532,428</u>	<u>(9,780,567)</u>
Increase (decrease) in cash and cash equivalents	65,723	(6,196,549)	31,341	(6,099,485)
Cash and cash equivalents, beginning of year	<u>67,102</u>	<u>6,905,875</u>	<u>-</u>	<u>6,972,977</u>
Cash and cash equivalents, end of year	<u><u>\$132,825</u></u>	<u><u>\$ 709,326</u></u>	<u><u>\$ 31,341</u></u>	<u><u>\$ 873,492</u></u>
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	\$ -	\$ 395,185	\$ -	\$ 395,185
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Changes in assets and liabilities				
Prepays	-	(11,373)	-	(11,373)
Payables	-	808	-	808
Accrued liabilities	<u>107,967</u>	<u>-</u>	<u>-</u>	<u>107,967</u>
Due to mental health fund	<u>-</u>	<u>3,689,582</u>	<u>-</u>	<u>3,689,582</u>
Net cash provided by operating activities	<u><u>\$107,967</u></u>	<u><u>\$ 4,074,202</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 4,182,169</u></u>

Non-Cash Transactions

There were no significant non-cash investing or financing activities during the year.

**GENESEE COUNTY COMMUNITY
MENTAL HEALTH SERVICES**

Combining Balance Sheet

Fiduciary Fund Types - Agency Funds

September 30, 2006

	Client Activity Fund	Representative Payee Fund	Total
	<u> </u>	<u> </u>	<u> </u>
Assets			
Cash and cash equivalents	<u>\$ 15,207</u>	<u>\$ 429,385</u>	<u>\$ 444,592</u>
Liabilities			
Accrued liabilities	<u>\$ 15,207</u>	<u>\$ 429,385</u>	<u>\$ 444,592</u>

Single Audit Section



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

December 29, 2006

Board of Directors
Genesee County Community Mental Health Services
Flint, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Genesee County Community Mental Health Services (the "Agency", a collection of funds of Genesee County, Michigan) as of and for the year ended September 30, 2006, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated December 29, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of Genesee County Community Mental Health Services in a separate letter dated December 29, 2006.

This report is intended solely for the information and use of the audit committee, management, the Board of Directors, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

December 29, 2006

Board of Directors
Genesee County Community Mental Health Services
Flint, Michigan

Compliance

We have audited the compliance of Genesee County Community Mental Health Services (the "Agency", a collection of funds of Genesee County, Michigan) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2006. The Agency's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Genesee County Community Mental Health Services management. Our responsibility is to express an opinion on the Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Agency's compliance with those requirements.

In our opinion, the Agency complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2006.

Internal Control Over Compliance

The management of Genesee County Community Mental Health Services is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Agency's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, the Board of Directors, others in the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, reading "Lehmann Lohman".

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICES

Schedule of Expenditures of Federal Awards For the Year Ended September 30, 2006

Federal Agency/Pass-Through Grantor/Program Title	CFDA Number	Federal Expenditures
U.S. Department of Housing and Urban Development:		
Passed through the Metro Housing Partnership:		
Supportive Housing - Traditional	14.235	\$ 193,723
Supportive Housing - Daily Living Skills	14.235	53,134
Supportive Housing - Operations	14.235	432,982
Passed through the City of Flint, MI:		
Emergency Shelter Grants Program	14.231	30,910
Passed through the Genesee County:		
Emergency Shelter Grants Program	14.231	1,500
Supportive Housing Program		
Shelter Plus Care Program	14.238	71,569
Total U.S Department of Housing and Urban Development		<u>783,818</u>
U.S. Department of Education:		
Passed through the Genesee County Intermediate		
School District:		
Safe Schools/Healthy Students	84.184L	55,381
Passed through the Flint Community		
School District:		
Safe Schools/Healthy Students	84.184	40,517
Passed through the Michigan Community Coordinated		
Child Care Association:		
Child Care Expulsion Prevention	84.349	2,812
Total U.S. Department of Education		<u>98,710</u>

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICES

Schedule of Expenditures of Federal Awards For the Year Ended September 30, 2006

Federal Agency/Pass-Through Grantor/Program Title	CFDA Number	Federal Expenditures
U.S. Department of Health and Human Services		
Passed through Michigan Department of Community Health and Family Independence Agency:		
from Homelessness (PATH)	93.150	91,500
Medical Assistance Program - OBRA - PASSAR	93.778	408,230
Community Mental Health Services Block Grant:		
Wrap Services Initiative	93.958	61,261
Family Psycho-Education	93.958	3,307
SED Respite	93.958	11,021
Juvenile Justice	93.958	65,000
Passed through Michigan Department of Community Health Center for Substance Abuse Services:		
SAPT Block Grant	93.959	1,968,502
State Incentive Program	93.243	48,621
Total U.S. Department of Health and Human Services		<u>2,657,442</u>
U.S. Department of Homeland Security		
Passed through the United Way:		
Emergency Food and Shelter National Board Program	97.024	18,520
Total U.S. Department of Homeland Security		<u>18,520</u>
Total expenditures of federal awards		<u><u>\$3,558,490</u></u>

Genesee County Community Mental Health Service

Notes to Schedule of Expenditures of Federal Awards

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Genesee County Community Mental Health Service and is presented on the accrual basis of accounting.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

* * * * *

Genesee County Community Mental Health Service

Schedule of Findings and Questioned Costs

For the Year Ended September 30, 2006

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? _____ yes X no

Reportable condition(s) identified
not considered to be material weaknesses? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified? _____ yes X no

Reportable condition(s) identified
not considered to be material weaknesses? _____ yes X none reported

Type of auditors' report issued on compliance
for major programs: Unqualified

Any audit findings disclosed that are required
to be reported in accordance with
Circular A-133, Section 510(a)? _____ yes X no

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

93.959

SAPT Block Grant

Auditee qualified as low-risk auditee? X yes _____ no

Genesee County Community Mental Health Service

Schedule of Findings and Questioned Costs (Concluded)

For the Year Ended September 30, 2006

SECTION II - FINANCIAL STATEMENT FINDINGS

None.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None.

SECTION IV - PRIOR YEAR FINDINGS

2005-1 14.235 - Supportive Housing

Statement of Conditions: During our audit procedures we noted that in some cases required signatures of either or both of the case administrator or the consumer were not evident on the housing contract.

Follow-Up: During our follow-up procedures, we noted that the Agency has established a policy requiring signatures of both the case administrator and the consumer before approving the consumer's file for the housing contract.

* * * * *